

APPROVED

STATE OF WASHINGTON
STATE INVESTMENT BOARD

Private Markets Committee Meeting
Minutes

June 2, 2005

The Private Markets Committee met in open public session at 9:04 a.m. in the boardroom at the Washington State Investment Board in Olympia, Washington.

Members Present: Debbie Brookman, Chair
Jeff Hanna
Sandy Matheson
Patrick McElligott
Treasurer Mike Murphy

Members Absent: Senator Lisa Brown
John Magnuson
Jeff Seely

Other Board Members
Present: Charles Kaminski

Others Present: Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Tom Ruggels, Senior Investment Officer – Private Equity
Isabelle Fowler, Investment Officer – Private Equity
Linda Buchanan, Administrative Secretary
Paul Silver, Assistant Attorney General
Monte Brem, Pacific Corporate Group
Tara Blackburn, Pacific Corporate Group
Michael Krems, Pacific Corporate Group
Michael Russell, Pacific Corporate Group
John Gripton, Capital Dynamics
Thomas Kubr, Capital Dynamics
Christophe Rouvinez, Capital Dynamics
Hilary Sonstegard, Capital Dynamics
David Woolford, Capital Dynamics

[Names of other individuals attending the meeting are not included in the minutes but are listed in the permanent record.]

The meeting convened at 9:04 a.m. with Chair Brookman identifying members present.

ADOPTION OF MINUTES – MAY 5, 2005

Mr. Murphy moved to adopt the minutes of May 5, 2005. Mr. McElligott seconded, and the minutes were adopted unanimously.

PRIVATE EQUITY CONSULTANT FINALIST INTERVIEWS

Ms. Fowler introduced herself and explained that Pacific Corporate Group's contract will expire on December 31, 2005. A Request for Proposals (RFP) was issued in February. The RFP was structured to allow firms to offer Category A services, which include consulting, deal sourcing, due diligence, and investment recommendation; Category B services, which include performance measurement, portfolio reporting, monitoring, and transaction management; or both. Eight firms responded: four for combined services, two for Category A services, and two for Category B services. The proposals were evaluated and scored by staff members. Reference calls were made and semi-finalists were interviewed by staff. The finalists, Pacific Corporate Group and Capital Dynamics, were invited to make presentations to the Committee.

The Committee discussed other firms that applied and why they were disqualified, the basis of the scoring, the confidential nature of the proposed fee structures, the length of time Capital Dynamics has been in operation, and the difference in scope between the WSIB portfolio and that of Capital Dynamics' other clients.

Mr. Bruebaker explained that the normal procedure is for each firm to come in individually to make their presentations to the Committee, then for staff to caucus and return to make a recommendation to the Committee.

The Committee discussed the nature of secondary investments, why the fee structure for them is different from other investments, and whether any of the reference checks were clients of both firms.

Tara Blackburn, Pacific Corporate Group (PCG), introduced herself, Monte Brem, Michael Russell, and Michael Krems. They discussed PCG's organizational changes and growth; personal commitment to the WSIB; history; focus on private equity; recent expansion into Europe; development of emerging markets opportunities; client base and relationships; the team's diverse background; recent staff turnover; communication; performance; consistent front and back office leadership; investment protocol; organizational focus; recent reorganization; decision-making process; level of governance; compensation; organizational goals, including increased international focus and research functions; reporting system; institutional portfolio management platform; research and analytics; portfolio construction and administration; investment management; and investment and due diligence processes.

A question and answer period followed PCG's prepared presentation.

[The Committee recessed at 10:26 a.m. and reconvened at 10:36 a.m.]

Thomas Kubr, John Gripton, David Woolford, Hilary Sonstegard, and Christophe Rouvinez, Capital Dynamics, introduced themselves. They described the firm's history, asset management, international network, client base, global organization, board of directors, business development,

accessibility, private equity experience, track record, investment process, long-term relationships, staff's complementary global skill sets, monitoring and reporting processes, investment strategy, market access, management and investment teams, diverse experience, decision-making process, weekly management meetings, due diligence process, portfolio servicing, records and data integrity, compliance monitoring, verification processes, research and analytic capability, benchmarking process, strategy, and sector allocation.

A question and answer period followed Capital Dynamic's prepared presentation.

[The Committee recessed at 11:49 a.m. and reconvened at 12:08 p.m.]

Mr. Bruebaker stated that although staff believes PCG would continue to do an adequate job, staff recommends that Capital Dynamics be hired as the private equity consultant. He explained that staff believes Capital Dynamics would assist in taking the Board to a new level and that the value added would outweigh the drawbacks of changing consultants.

The Committee discussed the differences in scale between the WSIB and Capital Dynamics' other clients, fee structure, scope of work, and the benefit of the greater capability for research and analytics. The Committee also discussed Capital Dynamics' lack of a written code of ethics, the location and accessibility of Capital Dynamics' staff, staff turnover at PCG, references, the data transfer process between consultants if a new consultant is hired, advantages of the international aspect of Capital Dynamics to the WSIB portfolio, complementary skill sets between WSIB and Capital Dynamics staff, ability of Committee members to speak directly to the consultant, the RFP process and rules, and other firms that submitted responses to the RFP and reasons they were disqualified.

Ms. Matheson moved that the Private Markets Committee recommend to the Board Capital Dynamics as the apparently successful offeror for the Private Equity Consultant contract, subject to continued due diligence and successful negotiation of terms and conditions. Ms. Brookman seconded the motion.

The Committee discussed staff tenure and education at the two firms, the difference in scale and scope between WSIB's portfolio and Capital Dynamics' other clients, and differences between firms.

The motion carried with Treasurer Murphy voting no.

PRIVATE MARKETS CLOSING LOG

The Private Markets Closing Log was presented for informational purposes. The Committee discussed the scheduled closing of KKR European Fund II, L.P.

OTHER ITEMS

There being no further business to come before the Committee, the meeting adjourned at 1:07 p.m.